

CITY STORES COMPANY

ANNUAL REPORT

Fiscal year ended Feb. 1, 1958

BOARDS
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C498r

CITY STORES COMPANY

*Operating 66
retail units in 18 states*

LIT BROTHERS

BERNARD LITVAK, *Executive Head*

Pennsylvania: Philadelphia,
69th Street (Upper Darby),
Northeast Philadelphia, Morrisville
New Jersey: Trenton, Camden

MAISON BLANCHE

ISIDORE NEWMAN, II, *President*

Louisiana: New Orleans,
Carrollton, Gentilly, Airline
Highway, West Side

LOVEMAN, JOSEPH & LOEB

O. W. SCHANBACHER, *President*

Alabama: Birmingham,
Montgomery, Bessemer

LANSBURGH'S

RALPH L. GOLDSMITH, *President*

D. C.: Washington
Maryland: Langley Park
Virginia: Arlington (Shirlington)**

B. LOWENSTEIN

STANLEY H. FRIED, *President*

Tennessee: Memphis,
Lowenstein's East, Lowenstein's South,
Lowenstein's Home Service

RICHARD'S

Florida: Miami,
163rd Street (North Miami)

KAUFMAN STRAUS

ROBERT L. SCHUSS, *President*

Kentucky: Louisville

BRY-BLOCK

BERNARD PINCUS, *President*

Tennessee: Memphis

R. H. WHITE

HAROLD BROOMFIELD, *Manager*

Massachusetts: Worcester

SPECIALTY STORES

GORDON K. GREENFIELD, *President*

FRANKLIN SIMON

Connecticut: Westport
District of Columbia: Washington
Florida: Miami Beach
Georgia: Atlanta
Massachusetts: Boston
New Jersey: East Orange, Eatontown**
New York: New York City, Garden City,
Manhasset
Ohio: Cincinnati, Cleveland
Pennsylvania: Philadelphia, Germantown
Tennessee: Memphis
Virginia: Seven Corners

OPPENHEIM COLLINS

Delaware: Wilmington
Maryland: Baltimore — downtown* and
Mondawmin, Harundale Center,*
Towson Center**
New Jersey: East Orange, Hackensack,
Haddonfield, Morristown, Paramus
New York: New York City, Buffalo —
downtown and Thruway Plaza,
Bay Shore, Cross County, Garden City,**
Hicksville, Huntington, Valley Stream,
Roosevelt*
Pennsylvania: Philadelphia, Willow Grove

KLINE'S

Missouri: St. Louis, Clayton, Kansas City
Ohio: Cincinnati
Michigan: Detroit, Northland Center,
Eastland Center

HEARN'S

New York: Bronx

*To be opened during 1958

**To be opened during 1959

***To be closed upon opening of Roosevelt store

CITY STORES COMPANY MANAGEMENT

DIRECTORS

GUSTAVE G. AMSTERDAM	J. J. CAPRANO	ISIDORE NEWMAN, II
JAMES H. BECKER	RALPH L. GOLDSMITH	MAX ROBB
MURRY C. BECKER	ALBERT M. GREENFIELD	J. BENSON SAKS
DAVID BORTIN	GORDON K. GREENFIELD	O. W. SCHANBACHER
HAROLD W. BRIGHTMAN	JOSEPH A. W. IGLEHART	ROBERT L. SCHUSS
FRANKLIN F. BRUDER	GEORGE H. JOHNSON	SERGE SEMENENKO
	WILLIAM F. KELLY	

OFFICERS

ALBERT M. GREENFIELD	<i>Chairman of the Board</i>
GORDON K. GREENFIELD	<i>Vice Chairman of the Board</i>
MAX ROBB	<i>President</i>
FRANKLIN F. BRUDER	<i>Executive Vice President and Treasurer</i>
ISIDORE NEWMAN, II	<i>Senior Vice President</i>
HAROLD W. BRIGHTMAN	<i>Vice President</i>
RALPH L. GOLDSMITH	<i>Vice President</i>
BERNARD LITVAK	<i>Vice President</i>
O. W. SCHANBACHER	<i>Vice President</i>
IRVING J. ZIPIN	<i>General Attorney and Assistant Secretary</i>
J. KARL FISHBACH	<i>Controller and Assistant Treasurer</i>
MILTON A. KAMSLER	<i>Secretary</i>

CORPORATION OFFICE • 320 Bankers Securities Building • Philadelphia, Pa.
NEW YORK BUYING OFFICE • City Stores Mercantile Co., 132 W. 31st St., N. Y.

TRANSFER AGENT

The Chase Manhattan Bank
New York, N. Y.

REGISTRAR

Chemical Corn Exchange Bank
New York, N. Y.

COUNSEL

Folz, Bard, Kamsler,
Goodis & Greenfield
Philadelphia, Pa.

AUDITORS

S. D. Leidesdorf & Co.
New York City

ANNUAL MEETING • May 21, 1958 • 11 A.M. (D.S.T.)
100 W. 10th Street, Wilmington, Delaware

CITY STORES COMPANY AND CONSOLIDATED SUBSIDIARIES

HIGHLIGHTS OF THE YEAR

	February 1, 1958 (52 Weeks)	February 2, 1957 (53 Weeks)
OPERATIONS		
Net retail sales	\$263,747,000	\$272,119,000
Income before federal income taxes	6,540,000	5,834,000
Federal income taxes	3,200,000	2,313,000
Net income	3,340,000	3,521,000
Income applicable to common stock	3,298,000	3,471,000
Income per average number of common shares	1.31	1.38
DIVIDENDS		
Preferred stock	42,000	50,000
Common stock	3,534,000	3,534,000
Per share of preferred stock	4.25	4.25
Per share of common stock	1.40	1.40
FINANCIAL		
Current assets	96,495,000	106,098,000
Current liabilities	30,285,000	32,574,000
Working capital	66,210,000	73,524,000
Current ratio	3.2	3.3
Accounts receivable	60,922,000	67,292,000
Bank remittances on portion of receivables	12,871,000	10,999,000
Inventories	31,996,000	34,904,000
Property and equipment — net	28,117,000	26,755,000
Long term debt	32,371,000	34,610,000
Ownership	63,983,000	67,489,000
Preferred stock	882,000	1,068,000
Common stock equity	63,101,000	66,421,000
Common stock equity per share	24.99	26.31
Number of shares outstanding		
Preferred stock — at end of year	8,819	10,679
Common — average during year	2,524,000	2,524,000
Common — at end of year	2,524,567	2,524,374

Exclusive of extraordinary items which did not result from the usual or typical business operations of the period and have been credited or charged to income reinvested in business.

Italics denote deductions

ANNUAL REPORT

FOR 1957

April 25, 1958

TO THE STOCKHOLDERS:

Consolidated net retail sales for the past fiscal year ended February 1, 1958 (52 weeks) were \$263,747,000 compared with \$272,119,000 the previous year (53 weeks). A number of factors contributed to this decline, including the closing of the Oppenheim Collins store in Brooklyn on January 10, 1957, the closing of R. H. White's Boston store on June 15, 1957 and one week less of business than the preceding fiscal year. New branch and suburban units were opened at varying times, primarily during the latter part of the year, so that their volume potential was not fully and significantly reflected in the past year's business.

Income before Federal income taxes this year amounted to \$6,540,000 as compared with \$5,834,000 the previous year. Net income after taxes amounted to \$3,340,000 this year as compared with \$3,521,000 last year, before the inclusion of extraordinary credit items which did not result from the usual or typical business operations of that year in the net amount of \$2,200,000. Therefore, income per share of common stock this year was \$1.31 compared with \$1.38 the previous year when the non-recurring profit amounted to \$.87 per share of common stock. Dividends on the common stock were maintained during the year at the rate of \$.35 per share quarterly, the same rate which has been paid for the past seven years. The financial condition of the Company remains strong and the ratio of current assets to current liabilities is 3.2 as compared with 3.3 last year.

In connection with the suspense item mentioned in last year's report and shown on this year's balance sheet in the amount of \$933,725, considerable progress has been made between the parties involved. We are confident that the ultimate disposition should have little or no adverse effect on shareholders' equity.

The firm of S. D. Leidesdorf & Co. was appointed the Company's independent accountants for this year and their report is included on page 14. This firm has been the accountants for the Company's subsidiaries, City Specialty Stores, Inc. and Specialty Stores Company, Inc. for many years.

In January of this year Albert M. Greenfield relinquished his duties as President of the Company, continuing as Chairman of the Board. In his stead, the Board of Directors elected Max Robb, formerly President of Lit Brothers in Philadelphia, as President of the Company.

Mr. Robb brings with him 48 years of active service in the field of retailing, the past 23 years of which were spent with the Company's largest operation, Lit Brothers.

At the same meeting of the Board of Directors, Gordon K. Greenfield was named Vice Chairman of the Board and Franklin F. Bruder was elevated to the post of Executive Vice-President as well as Treasurer.

Bernard Litvak, who served in a number of executive and merchandising capacities at Lit Brothers, was made Executive Head of that store, succeeding Mr. Robb.

STORE AND OPERATING MATTERS

Our expansion and modernization program continues to keep pace with normal retail growth. Almost every unit of the Company has benefited from some aspect of physical renewal. Additional stores have been added and we have extended our operations farther into the middle western states. Some of the important events of the past year are detailed below.

At the end of July 1957, a 30,000 square foot store in the already established Morrisville Shopping Center in Morrisville, Pennsylvania, directly across the Delaware River from Trenton, New Jersey, was acquired by the Swern division of Lit Brothers. With this acquisition of its sixth suburban unit, Lit Brothers continues its strong position of dominance in one of the most highly industrialized sections of the East, the greater Philadelphia and Delaware River basin area.

Maison Blanche in New Orleans completed and opened on October 22, 1957, a six-story building addition, adding 78,000 square feet of space to its downtown store and resulting in improved attractiveness and layout area for merchandise and operations. Three months later, in January, 1958, the West Side store opening added a fourth suburban unit and a sister operation to the Airline Highway store, opened in 1956. The new 65,000 square foot branch has been well received and has added to the prestige and retail importance of Maison Blanche in greater New Orleans.

Excellent results in the Langley Park suburban store of Lansburgh's in the highly competitive area of the nation's capital have warranted the leasing of an additional 150,000 square foot store in the already existing and proven Shirlington Business Center in Arlington County, Virginia, across the Potomac River and to the southwest of Washington. This store is expected to open in early 1959 and, together with the Langley store to the northeast of Washington, will serve the entire metropolitan area which comprises the Lansburgh market.

A decision of major consequence was reached in mid-1957 in the closing of the Boston, Massachusetts store of the R. H. White Corporation. The elimination of this unprofitable operation should improve measurably the future operating results of your Company. The Needham warehouse has been subleased under favorable terms. The Worcester suburban unit is continuing its operations and is showing progress.

Significant expansion has continued in the specialty store group of the Company. As of February 3, 1958, over 99% of the capital stock of Kline's, Incorporated was acquired on behalf of Specialty Stores Company, Inc., the parent organization of the Hearn's Bronx store and City Specialty Stores, Inc., which operates the Franklin Simon and Oppenheim Collins chain. The new acquisition adds seven stores in the mid-west, consisting of a group of six moderate-to-better priced specialty stores in St. Louis and Clayton, Missouri, in Cincinnati, Ohio, in downtown Detroit and in Eastland and Northland Centers, as well as a junior department store in Kansas City, Missouri. It is planned to operate these specialty store units in close relationship with Franklin Simon.

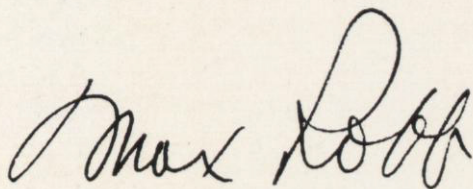
Three new Oppenheim Collins branches opened during the past year — in Bayshore and Valley Stream, Long Island and in Paramus, Bergen County, New Jersey. In addition, the Franklin Simon unit in Mondawmin, Baltimore, Maryland, has been converted to an Oppenheim Collins operation. Three new Oppenheim Collins branches are to open in the Baltimore metropolitan area, — one in the downtown business area and another in Harundale Center, eight miles south of Baltimore, are to open in 1958 and a third new branch in Towson Plaza is planned for 1959. A lease has been signed for an Oppenheim Collins unit in Roosevelt Field, Long Island, to open in 1958. The Garden City branch will close upon the opening of the Roosevelt Field unit. The Greenwich store, which was vacant the past several years, has been sold on favorable terms.

Additional Franklin Simon branches are being negotiated and one such branch is being leased at Eatontown, Monmouth County, New Jersey.

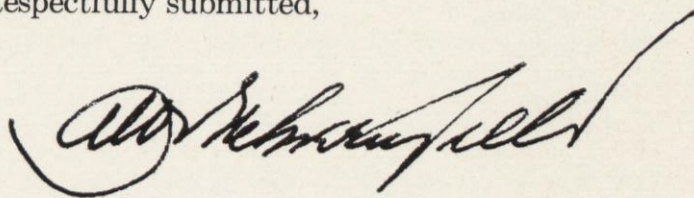
Major alterations are underway in the Oppenheim Collins 34th Street store in Manhattan which will result in escalators serving all four selling floors and the creation of additional selling areas. At Loveman's, in Birmingham, Alabama, a new basement and a new modern lighting system have been installed. Lansburgh's, in Washington, has added a new specialty shop on the street floor, and that floor has also been re-fixtured with new lighting throughout. Air conditioning has been extended and department layouts improved at the Hearn's, Bronx store, including a new self-service housewares department.

We record here our thanks to our customers for their patronage and to our employees and our vendors for their help and support throughout the year.

Respectfully submitted,



President



Chairman of the Board

CITY STORES COMPANY AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF INCOME

	Year Ended (52 Weeks) February 1, 1958	Year Ended (53 Weeks) February 2, 1957
Net retail sales (including leased departments) . . .	\$263,746,975	\$272,119,146
Deduct:		
Cost of goods sold and operating expenses less carrying charges	252,894,897	262,322,818
Depreciation and amortization	2,863,658	2,571,888
Interest and debt expense	2,005,301	1,990,658
	<u>257,763,856</u>	<u>266,885,364</u>
	5,983,119	5,233,782
Net income of unconsolidated subsidiaries — (net of depreciation of \$790,891 and \$849,084 respectively) — Note A:		
Distributed as dividends	398,000	431,000
Undistributed	81,031	158,367
Miscellaneous other income	191,126	221,298
Minority share of net income	<u>113,521</u>	<u>210,921</u>
Income before federal income taxes	6,539,755	5,833,526
Federal income taxes — Note F	<u>3,200,000</u>	<u>2,313,222</u>
Net income — Note F	<u>\$ 3,339,755</u>	<u>\$ 3,520,304</u>

Exclusive of extraordinary items which did not result from the usual or typical business operations of the period and have been credited or charged to income reinvested in business.

Italics denote deductions

See notes to financial statements, pages 11 through 13.

CITY STORES COMPANY

STATEMENT OF

ASSETS	February 1, 1958	February 2, 1957
CURRENT ASSETS		
Cash	\$ 13,992,897	\$ 12,475,652
U.S. Government securities	43,317	38,283
Accounts receivable, customers and others, including amounts assigned to banks less amounts received from banks under agreements; less allowances for doubtful accounts of \$3,303,275 and \$2,961,226 respectively — Note B	48,050,889	56,292,616
Merchandise inventories — Note C	31,995,929	34,903,549
Supplies and prepaid expenses	2,411,624	2,388,365
TOTAL CURRENT ASSETS	<u>96,494,656</u>	<u>106,098,465</u>
INVESTMENTS AND OTHER ASSETS		
Investments in and net receivables from unconsolidated subsidiaries — Note A and see page 10	2,323,583	1,293,275
U.S. Government securities deposited as security under leases	118,720	141,334
Mortgages receivable, sundry investments and other items — Note D	883,268	520,283
Refundable income and excess profits taxes of prior years	180,367	875,365
Suspense — Note E	933,725	—
	<u>4,439,663</u>	<u>2,830,257</u>
PROPERTY AND EQUIPMENT		
Land, buildings, leaseholds, fixtures and equipment — at cost	44,746,280	41,919,951
Less accumulated depreciation and amortization . . .	16,628,917	15,164,617
	<u>28,117,363</u>	<u>26,755,334</u>
UNAMORTIZED DEBT EXPENSE	201,227	234,493
	<u>\$129,252,909</u>	<u>\$135,918,549</u>

See notes to financial statements, pages 11 through 13.

AND CONSOLIDATED SUBSIDIARIES

FINANCIAL CONDITION

LIABILITIES	February 1, 1958	February 2, 1957
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 17,023,552	\$ 18,394,759
Federal income taxes — Note F	6,906,012	6,733,687
Notes payable to banks	4,250,134	4,879,667
Current portion of long term debt	2,105,250	2,566,078
TOTAL CURRENT LIABILITIES	<u>30,284,948</u>	<u>32,574,191</u>
LONG TERM DEBT		
Notes payable — Note G	28,300,000	30,200,000
4% Sinking fund debentures (subordinated) — payable \$300,000 annually	3,600,000	3,900,000
Mortgages payable — Note D	470,617	509,888
	<u>32,370,617</u>	<u>34,609,888</u>
RESERVES		
For restoration of leased properties — Note K	441,899	441,899
For termination of store operations — Note H	333,000	—
	<u>774,899</u>	<u>441,899</u>
DEFERRED FEDERAL INCOME TAXES — NOTE F	<u>962,800</u>	<u>—</u>
MINORITY INTERESTS		
Preferred stock (par value)	184,600	195,600
Common stock equities	692,055	608,103
	<u>876,655</u>	<u>803,703</u>
OWNERSHIP		
Preferred stock — \$100.00 par value; 4¼% convertible — authorized 38,565 shares; outstanding 8,819 shares (after deducting 710 shares in treasury) — Note I	881,900	1,067,900
Common stock — \$5.00 par value — authorized 3,000,000 shares; outstanding 2,524,567 shares (after deducting 12,423 shares in treasury) — Note I	12,622,833	12,621,874
Other capital — Note J	18,403,593	18,382,056
Income reinvested in business—Notes A, E, F, G and H	32,074,664	35,417,038
	<u>63,982,990</u>	<u>67,488,868</u>
	<u>\$129,252,909</u>	<u>\$135,918,549</u>

CITY STORES COMPANY AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF INCOME REINVESTED IN BUSINESS

	Year Ended (52 Weeks) Feb. 1, 1958	Year Ended (53 Weeks) Feb. 2, 1957
Balance at beginning of year	\$35,417,038	\$33,200,521
Net income for the year	3,339,755	3,520,304
	<u>38,756,793</u>	<u>36,720,825</u>
<i>Charges and credits for extraordinary items which did not result from the usual or typical business operations of the period:</i>		
Termination of R. H. White Boston store — Note H	1,833,116	—
Adjustments relating principally to income taxes—Note F	1,275,796	—
Profit on sale of real estate by an unconsolidated subsidiary, net of state tax applicable thereto — (distributed as dividend \$750,000; undistributed \$672,408)	—	1,422,408*
Reduction in federal income taxes due to change in method of tax accounting for bad debts	—	990,000*
Miscellaneous items — net	—	78,428
Minority share	3,114	211,000*
	<u>3,105,798</u>	<u>2,279,836</u>
	<u>35,650,995</u>	<u>39,000,661</u>
Dividends paid:		
Preferred stock — \$4.25 per share	42,028	49,723
Common stock — \$1.40 per share	3,534,303	3,533,900
	<u>3,576,331</u>	<u>3,583,623</u>
Balance at end of year — Notes A, E, F, G and H	<u>\$32,074,664</u>	<u>\$35,417,038</u>

*Reclassified by the Company to conform to the presentation adopted by it in the current year for extraordinary items which did not result from the usual or typical business operations of the period. In the report for the year ended February 2, 1957 these were shown as "special items" after net income on the statement of income and income reinvested in business.

Italics denote deductions.

See notes to financial statements, pages 11 through 13.

UNCONSOLIDATED REAL ESTATE SUBSIDIARIES — COMBINED

Summary of Net Assets — Note A

	February 1, 1958	February 2, 1957
Land, buildings, leaseholds and equipment, less depreciation (includes unoccupied premises of the R. H. White Boston store)	\$21,488,519	\$21,436,119
Mortgages and loan payable—current portions \$815,650 (current year) and \$782,571 (last year)	20,151,092	20,933,663
	<u>1,337,427</u>	<u>502,456</u>
Other assets, including cash and due from tenants of \$231,236 (current year) and \$176,173 (last year)	1,651,037†	1,352,730
	<u>2,988,464</u>	<u>1,855,186</u>
Accounts payable and federal income taxes	664,881	561,911
Net assets	<u>\$ 2,323,583</u>	<u>\$ 1,293,275</u>
Consisting of:		
Intercompany accounts with parent companies — net	\$ 1,277,999	\$ 324,038
Capital stocks and surplus	1,045,584	969,237
	<u>\$ 2,323,583</u>	<u>\$ 1,293,275</u>

†Includes \$642,734 mortgage note which is collateralized principally by a purchase money second mortgage, subordinate to a first mortgage (approximately \$809,000) on which one of these subsidiaries remains contingently liable.

Leases:

At February 1, 1958, unconsolidated subsidiaries were obligated under eight leases on real estate properties with terms expiring more than three years from that date, with an aggregate minimum annual rental of approximately \$260,000, four of which leases, with an aggregate minimum rental of approximately \$147,000, have been guaranteed by a consolidated subsidiary of City Stores Company. Certain leases also provide for payment of additional rental based on a percentage of sales (related to premises occupied by parent or consolidated subsidiaries) over a fixed amount, and for taxes, insurance or other charges.

CITY STORES COMPANY AND CONSOLIDATED SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

February 1, 1958

The accompanying financial statements (with certain reclassifications) as at and for the year (53 weeks) ended February 2, 1957, have been included for comparative purposes only. Reference is made to the previously issued annual report for notes and comments pertaining thereto.

A—PRINCIPLES OF CONSOLIDATION

The accounts of all subsidiaries are included in the accompanying consolidated financial statements, except those of certain real estate subsidiaries, the investments in which are included in the accompanying statement of financial condition at amounts equal to the net assets of such subsidiaries. A summary of such net assets is set forth on page 10.

B—ACCOUNTS RECEIVABLE FINANCING

The Company has agreements with various banks which provide, in effect, for a form of revolving credit under which specific accounts receivable are assigned to the banks, and the banks remit amounts equal to 90% of the accounts assigned, withholding 10% of the uncollected balances. Under the agreements, the Company accepts reassignment of any accounts in default (as defined) as long as it continues to assign accounts.

Summary of accounts financed:

	<u>This Year</u>	<u>Last Year</u>
Accounts receivable assigned	\$14,300,588	\$12,221,382
Less amounts remitted by banks	12,870,529	10,999,243
Net amount included in accounts receivable	<u>\$ 1,430,059</u>	<u>\$ 1,222,139</u>

C—MERCHANDISE INVENTORIES — Determined under Retail Method

Merchandise inventories, as summarized below, are priced principally at LIFO cost and partly at the lower of cost or market. The inventories priced at LIFO cost would be approximately \$4,835,000 more for this year and \$4,652,000 more for last year if they had been priced at the lower of cost or market.

	<u>This Year</u>	<u>Last Year</u>
At LIFO cost	\$26,558,427	\$29,378,511
Less discounts	577,447	630,878
	25,980,980	28,747,633
At lower of cost or market	6,014,949	6,155,916
	<u>\$31,995,929</u>	<u>\$34,903,549</u>

D—MORTGAGES RECEIVABLE

A mortgage receivable of \$256,438 is assigned as additional collateral for a mortgage payable included in long term debt in the amount of \$326,616.

E—SUSPENSE

The suspense account of \$933,725 results from accounts receivable differences disclosed in the previous year on the records of B. Lowenstein & Bros., Inc., a consolidated subsidiary. The management believes that the final disposition of this matter will result in little, if any, effect on shareholders' equity. Accordingly, no reserve has been provided for this account.

F—FEDERAL INCOME TAXES

The provision for federal income taxes is approximately \$420,000 less than would have been required if certain operating loss carryovers had not been available.

NOTES TO FINANCIAL STATEMENTS (Continued)

F—FEDERAL INCOME TAXES (CONTINUED)

The Company uses for federal income tax purposes a method of accelerated depreciation permitted by the Internal Revenue Code. Such depreciation exceeds the amount included in the accounts. The Company has adopted the policy this year of providing, where applicable, in the accounts of all the companies, for the estimated amount of federal income tax reduction resulting from such accelerated depreciation. An adjustment has been made in the accounts for such accumulated estimated tax, which may be payable in the future, applicable to prior years and of \$309,000 applicable to the current year. This amount does not include the provision made in the accounts of unconsolidated subsidiaries for the current year.

Proposed federal income tax assessments relating to Lit Brothers for the fiscal years ended in 1951 and prior were settled. After giving effect to various factors pertaining to that settlement, adjustments of fixed assets to income tax basis and other adjustments of prior years' federal income tax provisions, the net charge to income reinvested in business was \$1,275,796, summarized as follows:

Federal income taxes, net of refunds—Lit Brothers	\$1,241,199	
Interest on above, net of income tax reduction		305,551
Net charge for income taxes and interest		1,546,750
Adjustment of property and leasehold to conform to income tax basis	\$1,522,129	
Accumulated depreciation (\$807,373), less applicable federal income tax reduction	643,511	878,618
		668,132
Provision for accumulated estimated federal income tax reduction for prior years—accelerated depreciation		668,000
Reduction of prior years' federal income taxes		60,336
Net charge to income reinvested in business		<u>\$1,275,796</u>

The accompanying financial statements are subject to final determination of federal, state and local taxes.

G—LONG TERM DEBT

Maturities of notes payable under loan agreements with the Prudential Insurance Company of America and The First National Bank of Boston aggregate \$1,900,000 annually from 1958 to 1970, and the balance of \$5,500,000 is due in 1971. The loan agreements provide, among other things, for (1) the maintenance of minimum consolidated working capital of \$50,000,000, (2) restrictions on the purchase, redemption or other acquisition of either class of the Company's stock, except preferred stock as may be necessary to meet the sinking fund requirements, and (3) restrictions on the payment of cash dividends on the Company's common stock. Of the aforementioned restrictions, (2) and (3) above are not in effect as at February 1, 1958, having been waived by the holders of the notes until November 2, 1958. As at February 1, 1958, under the aforementioned waiver, the Company has paid dividends of approximately \$100,000 more than the computed amount that was then available for such purposes under a formula in the agreements as it pertains to the restrictions set forth in (2) and (3) above. Subsequent to February 1, 1958, also under the waiver, the Company declared dividends in the approximate amount of \$900,000, payable May 1, 1958.

H—TERMINATION OF STORE OPERATIONS

The store in Boston, Massachusetts, operated by R. H. White Corporation, was closed in June 1957, and its operation terminated. The losses incurred to February 1, 1958, and losses estimated by the Company to be incurred thereafter are as follows:

Termination losses and other costs to February 1, 1958, including depreciation of \$38,000 from date of closing	\$3,319,116	
Less federal income tax reduction applicable thereto		1,819,000
		1,500,116
Estimated anticipated termination losses and costs to be incurred	\$723,000	
Less expected federal income tax reduction applicable thereto	390,000	333,000
		<u>\$1,833,116</u>

I—PREFERRED STOCK

The conversion rights under the Company's 4¼% convertible preferred stock may be exercised on or before February 1, 1966 for shares of common stock of the Company on the basis of specified common share valuations. The authorized shares of common stock include 36,650 shares reserved for issuance upon conversion of the 4¼% convertible preferred stock.

NOTES TO FINANCIAL STATEMENTS (Continued)

I — PREFERRED STOCK (CONTINUED)

The Company's 4 $\frac{1}{4}$ % convertible preferred stock is entitled to the benefit of a sinking fund and contains, among other things, provisions restricting and limiting funded debt, issuance of additional shares of preferred stock, authorization of mergers or consolidations, etc.

J — OTHER CAPITAL

The increase of \$21,537 in other capital during 1957 consists of the excess of \$5,721 of par value over cost of preferred stock reacquired, plus miscellaneous net credits of \$15,816.

K — CONTINGENCIES AND OTHER COMMENTS

The Company and its consolidated subsidiaries, excluding the newly acquired subsidiary referred to hereinafter, had 77 leases (exclusive of intercompany leases) on real estate properties with terms expiring more than three years from February 1, 1958. The aggregate minimum annual rental under such leases amounted to approximately \$3,500,000. Some leases also provide for payment of additional rental based on a percentage of sales over a fixed amount, and for taxes, insurance or other charges.

Certain leases provide for restoration of the related properties to their original condition, in connection with which, upon vacating such properties, there may be incurred costs in an amount presently indeterminable. Accordingly, provision has not been made in the accounts for such costs except as to \$441,899 recorded on the acquisition of a subsidiary in a prior year. Reference is made to summary of net assets of unconsolidated real estate subsidiaries for additional minimum rentals payable under leases of such subsidiaries.

A company engaged in the operation of retail specialty stores was acquired subsequent to February 1, 1958 by a consolidated subsidiary for an aggregate purchase price of approximately \$3,700,000, which amount is subject to adjustment on audit. In the opinion of the management, the underlying book equity of the subsidiary's investment in the newly acquired subsidiary, after giving effect to audit and other adjustments, including reduction of certain asset amounts, will be in excess of the purchase price. The Company contemplates long term financing of the cost of this acquisition.

Commitments for and anticipated acquisition of fixed assets and a mortgage receivable approximate \$1,700,000.

S. D. LEIDESDORF & CO.
CERTIFIED PUBLIC ACCOUNTANTS
NEW YORK, N. Y.

ACCOUNTANTS' REPORT

To the Board of Directors
City Stores Company
Philadelphia, Pennsylvania

We have examined the consolidated statement of financial condition of City Stores Company and its consolidated subsidiaries as at February 1, 1958, and the related consolidated statements of income and income reinvested in business for the year (52 weeks) then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The balances at the beginning of the year of other capital and income reinvested in business and the amounts of opening inventories used in determining cost of goods sold are those shown as at February 2, 1957, in the consolidated financial statements for the year then ended, which were reported upon by other public accountants partly on the basis of reports submitted by us on the financial statements of certain subsidiaries. The opinion of the other public accountants on such consolidated financial statements was qualified with respect to the matter stated in Note E of the notes to financial statements accompanying this report.

In our opinion, subject to the effect of the disposition of the suspense account balance discussed in Note E of the notes to financial statements, the accompanying consolidated statement of financial condition and related consolidated statements of income and income reinvested in business, together with the notes to financial statements, present fairly the consolidated financial position of City Stores Company and its consolidated subsidiaries at February 1, 1958, and the consolidated results of their operations for the year (52 weeks) then ended, in conformity with generally accepted accounting principles applied on a basis consistent in all material respects with that of the preceding fiscal year, other than for the change, which we approve, as set forth in Note F of the notes to financial statements.

S. D. LEIDESDORF & CO.

New York, N. Y.
April 23, 1958

CITY STORES COMPANY AND CONSOLIDATED SUBSIDIARIES

HISTORICAL COMPARISON

	February 1, 1958	February 2, 1957	January 28, 1956	January 29, 1955	January 30, 1954	January 31, 1953
OPERATIONS						
Net retail sales	\$263,747,000	\$272,119,000	\$251,882,000	\$241,755,000	\$233,227,000	\$232,432,000
Index of sales	113%	117%	108%	104%	100%	100%
Income before federal income taxes	6,540,000	5,834,000	11,877,000	10,353,000	9,066,000	8,983,000
Federal income taxes	3,200,000	2,313,000	5,973,000	4,931,000	4,079,000	4,766,000
Net income	3,340,000	3,521,000	5,904,000	5,422,000	4,987,000	4,217,000
Income applicable to common stock	3,298,000	3,471,000	5,662,000	4,980,000	4,510,000	3,733,000
Income per average number of common shares	1.31	1.38	2.49	2.40	2.20	1.91
DIVIDENDS						
Preferred stock	42,000	50,000	242,000	442,000	477,000	484,000
Common stock	3,534,000	3,534,000	3,241,000	2,927,000	2,874,000	2,877,000
Per share:						
Preferred stock	4.25	4.25	4.25	4.25	4.25	4.25
Common stock	1.40	1.40	1.40	1.40	1.40	1.40
FINANCIAL						
Current assets	96,495,000	106,098,000	110,177,000	96,862,000	88,353,000	86,611,000
Current liabilities	30,285,000	32,574,000	31,772,000	26,314,000	24,544,000	26,017,000
Working capital	66,210,000	73,524,000	78,405,000	70,548,000	63,809,000	60,594,000
Current ratio	3.2	3.3	3.5	3.7	3.6	3.3
Accounts receivable	60,922,000	67,292,000	66,259,000	56,062,000	48,836,000	45,997,000
Bank remittances on portion of receivables	<i>12,871,000</i>	<i>10,999,000</i>	—	—	—	—
Inventories	31,996,000	34,904,000	31,417,000	29,559,000	26,663,000	27,410,000
Property and equipment — net	28,117,000	26,755,000	23,161,000	23,566,000	25,524,000	24,135,000
Long term debt	32,371,000	34,610,000	36,560,000	32,768,000	30,242,000	27,036,000
Ownership	63,983,000	67,489,000	65,458,000	63,088,000	61,065,000	59,496,000
Preferred stock	882,000	1,068,000	2,402,000	9,014,000	11,182,000	11,311,000
Common stock equity	63,101,000	66,421,000	63,056,000	54,074,000	49,883,000	48,185,000
Common stock equity per share	24.99	26.31	25.51	25.07	24.29	23.47
Number of shares outstanding at end of year						
Preferred stock	8,819	10,679	24,019	90,148	111,815	113,105
Common stock	2,524,567	2,524,374	2,471,918	2,157,018	2,053,857	2,052,990

Exclusive of extraordinary items which did not result from the usual or typical business operations of the period and have been credited or charged to income reinvested in business.

Italics denote deductions

